

**Governing Iowa's public  
universities and special schools**

University of Iowa  
Iowa State University  
University of Northern Iowa  
Iowa School for the Deaf  
Iowa Braille and Sight Saving School  
Lakeside Laboratory  
Quad-Cities Graduate Center  
Southwest Iowa Regents Resource Center  
Tri-State Graduate Center



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Teresa A. Wahlert, *Wauke*

Gregory S. Nichols, *Executive Director*

**MEMORANDUM**

To: Sam Leto  
From: Gregory S. Nichols  
Subject: Special Audit  
Date: July 19, 2005

The following information is provided in response to your request of June 29 for Iowa State University to provide background of a \$700,000 fraud discovery and special audit. ISU officials reported that they are not aware of any audit that dealt with a \$700,000 fraud discovery.

One special audit dated February 11, 2005, covered \$1.2 million in grants managed by the ISU Department of Curriculum and Instruction and resulted in \$141,305 in questioned costs. ISU requested the audit after irregularities were discovered in some purchasing transactions and after the ISU Internal Audit Department determined that policy violations had occurred. The bulk of the questioned costs (\$83,174) arose because the costs were not allowed within the scope of the grant.

The principal investigator (who left ISU prior to the audit commencing) made changes to the plan of the work without getting prior written approval from the contracting agency. However, the contracting agency appears to be satisfied with the work that was performed, and ISU has applied to the agency to rebudget the funds so that the costs are allowable. The most serious issue in the audit and the reason that the audit was turned over to the State Auditor for special investigation is that the faculty member did not properly deposit and account for registration fees collected from attendees at a conference conducted in connection with the grant. ISU policies require all collections to be deposited with the University, and federal grants require that such fee revenue be accounted for as part of the grant funds. Of the \$27,738 that was collected, only \$5,054 was deposited with the University. The remaining \$22,620 was expended through a Pay Pal account in the faculty member's name. (Pay Pal is an internet payment service, effectively a kind of bank account. It lets individuals receive credit card and Automated Clearing House (ACH) payments over the internet without having to establish a separate vendor account with the credit card companies and banks. Purchases can also be charged to these accounts in lieu of using a credit card or a bank account.) The faculty member represented that the expenditures were related to conducting the conference, but no supporting documentation was provided for the expenditures, and the receipts and expenditures were not reported to the University or the granting agency.

As a result of the audit, internal controls within the Curriculum and Instruction department have been strengthened. The State Auditor provided the report to both the Story County Attorney and the State Attorney General, but ISU is not aware that any legal action has been undertaken as a result of the audit.

If you have any questions or need more information, please don't hesitate to contact this office.

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cc: Legislative Liaisons  
Legislative Log